

Houston Grand Opera Association, Inc.

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended July 31, 2012 and 2011

Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

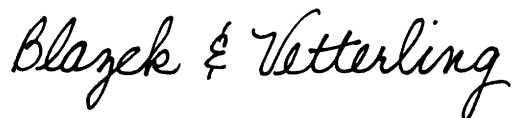
To the Board of Directors of
Houston Grand Opera Association, Inc.:

We have audited the accompanying consolidated statements of financial position of the Houston Grand Opera Association, Inc. as of July 31, 2012 and 2011 and the related consolidated statements of activities, of cash flows, and of functional expenses for the years then ended. These financial statements are the responsibility of the Houston Grand Opera Association, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Houston Grand Opera Association, Inc. as of July 31, 2012 and 2011 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position as of July 31, 2012 and 2011 and the consolidating statements of activities for the years ended July 31, 2012 and 2011 are presented for purposes of additional analysis and are not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the U. S. of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



October 24, 2012

Houston Grand Opera Association, Inc.

Consolidated Statements of Financial Position as of July 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash	\$ 107,153	\$ 255,016
Accounts receivable, net	607,341	205,082
Operating pledges receivable, net (<i>Note 2</i>)	8,429,328	12,166,849
Deferred production costs and other assets	2,130,160	1,865,967
Beneficial interest in charitable trust, net (<i>Notes 3 and 5</i>)	2,832,399	2,676,931
Pledges receivable restricted for endowment, net (<i>Note 2</i>)	3,289,896	4,348,863
Investments (<i>Notes 4 and 5</i>)	38,636,525	39,062,884
Property, net (<i>Note 6</i>)	<u>1,279,517</u>	<u>1,151,007</u>
TOTAL ASSETS	<u>\$ 57,312,319</u>	<u>\$ 61,732,599</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 346,632	\$ 567,176
Accrued salaries and benefits	289,386	210,297
Deferred subscription revenue	2,647,376	2,474,559
Note payable (<i>Note 7</i>)		585,000
Deferred co-production and set rental revenue	<u>441,797</u>	<u>108,925</u>
Total liabilities	<u>3,725,191</u>	<u>3,945,957</u>
Commitments and contingencies (<i>Note 8</i>)		
Net assets: (<i>Note 11</i>)		
Unrestricted (<i>Note 9</i>)	(585,480)	(797,984)
Temporarily restricted (<i>Note 10</i>)	17,696,413	22,421,168
Permanently restricted	<u>36,476,195</u>	<u>36,163,458</u>
Total net assets	<u>53,587,128</u>	<u>57,786,642</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 57,312,319</u>	<u>\$ 61,732,599</u>

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

Consolidated Statement of Activities for the year ended July 31, 2012

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 5,731,162	\$ 4,407,594	\$ 287,737	\$ 10,426,493
Ticket sales and performance fees	4,258,303			4,258,303
Special events	2,789,183	170,000		2,959,183
Cost of direct donor benefits	(700,339)			(700,339)
Co-production and other income	1,267,751			1,267,751
Investment return, net (<i>Note 4</i>)	<u>73,066</u>	<u>399,953</u>		<u>473,019</u>
Total revenue	13,419,126	4,977,547	287,737	18,684,410
Net assets released from restrictions:				
Expiration of time restrictions	7,123,550	(7,123,550)		
Endowment appropriation for operations	1,961,322	(1,961,322)		
Net transfer to/from Endowment	25,000	(50,000)	25,000	
Redesignation for special events	<u>567,430</u>	<u>(567,430)</u>		
Total	<u>23,096,428</u>	<u>(4,724,755)</u>	<u>312,737</u>	<u>18,684,410</u>
EXPENSES:				
Program services	15,102,721			15,102,721
Marketing and advertising	2,983,568			2,983,568
Fundraising	2,833,954			2,833,954
Management and general	<u>1,963,681</u>			<u>1,963,681</u>
Total expenses	<u>22,883,924</u>			<u>22,883,924</u>
CHANGES IN NET ASSETS	212,504	(4,724,755)	312,737	(4,199,514)
Net assets, beginning of year	<u>(797,984)</u>	<u>22,421,168</u>	<u>36,163,458</u>	<u>57,786,642</u>
Net assets, end of year	<u>\$ (585,480)</u>	<u>\$ 17,696,413</u>	<u>\$ 36,476,195</u>	<u>\$ 53,587,128</u>

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

Consolidated Statement of Activities for the year ended July 31, 2011

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 7,744,765	\$ 7,620,706	\$ 4,117,546	\$ 19,483,017
Ticket sales and performance fees	4,188,199			4,188,199
Special events	1,890,452	196,823		2,087,275
Cost of direct donor benefits	(673,068)			(673,068)
Co-production and other income	1,056,957			1,056,957
Investment return, net (<i>Note 4</i>)	<u>188,284</u>	<u>4,922,549</u>		<u>5,110,833</u>
Total revenue	14,395,589	12,740,078	4,117,546	31,253,213
Net assets released from restrictions:				
Expiration of time restrictions	6,040,724	(6,040,724)		
Endowment appropriation for operations	2,066,000	(2,066,000)		
Redesignation for special events	<u>682,912</u>	<u>(682,912)</u>		
Total	<u>23,185,225</u>	<u>3,950,442</u>	<u>4,117,546</u>	<u>31,253,213</u>
EXPENSES:				
Program services	14,820,206			14,820,206
Marketing and advertising	2,991,488			2,991,488
Fundraising	2,702,322			2,702,322
Management and general	<u>2,060,244</u>			<u>2,060,244</u>
Total expenses	<u>22,574,260</u>			<u>22,574,260</u>
CHANGES IN NET ASSETS	610,965	3,950,442	4,117,546	8,678,953
Net assets, beginning of year	<u>(1,408,949)</u>	<u>18,470,726</u>	<u>32,045,912</u>	<u>49,107,689</u>
Net assets, end of year	<u>\$ (797,984)</u>	<u>\$ 22,421,168</u>	<u>\$ 36,163,458</u>	<u>\$ 57,786,642</u>

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

Consolidated Statements of Cash Flows for the years ended July 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (4,199,514)	\$ 8,678,953
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Net realized and unrealized (gain) loss on investments	351,904	(4,351,002)
Contributions restricted for endowment	(287,737)	(4,117,546)
Depreciation	289,073	237,980
Changes in operating assets and liabilities:		
Accounts receivable	(402,259)	(66,489)
Operating pledges receivable	3,737,521	(948,480)
Deferred production costs and other assets	(264,193)	243,621
Beneficial interest in charitable trust	(155,468)	(26,941)
Accounts payable and accrued expenses	(141,455)	186,013
Deferred revenue	<u>505,689</u>	<u>28,156</u>
Net cash used by operating activities	<u>(566,439)</u>	<u>(135,735)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(4,396,985)	(9,642,024)
Proceeds from sale of investments	5,526,474	9,031,928
Net change in cash and cash equivalents held as investments	(1,055,034)	1,321,567
Purchases of property	<u>(417,583)</u>	<u>(394,031)</u>
Net cash provided (used) by investing activities	<u>(343,128)</u>	<u>317,440</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	5,885,000	7,770,000
Payments on note payable	(6,470,000)	(8,650,000)
Proceeds from contributions restricted for endowment	<u>1,346,704</u>	<u>290,224</u>
Net cash provided (used) by financing activities	<u>761,704</u>	<u>(589,776)</u>
NET CHANGE IN CASH	(147,863)	(408,071)
Cash, beginning of year	<u>255,016</u>	<u>663,087</u>
Cash, end of year	<u>\$ 107,153</u>	<u>\$ 255,016</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$34,977	\$68,492

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

Consolidated Statement of Functional Expenses for the year ended July 31, 2012

	<u>MAINSTAGE</u>	<u>STUDIO</u>	<u>EDUCATION</u>	<u>TOTAL PROGRAM SERVICES</u>	<u>MARKETING AND ADVERTISING</u>	<u>FUNDRAISING</u>	<u>MANAGEMENT AND GENERAL</u>	<u>TOTAL EXPENSES</u>
Salaries and wages	\$ 6,717,829	\$ 589,030	\$ 564,681	\$ 7,871,540	\$ 1,277,624	\$ 1,340,618	\$ 1,047,357	\$ 11,537,139
Payroll taxes and benefits	1,420,532	165,356	104,616	1,690,504	240,201	246,543	254,941	2,432,189
Professional contractor fees	2,018,402	101,971	312,512	2,432,885	241,540	133,201	147,132	2,954,758
Production materials	1,116,081	1,883	28,541	1,146,505				1,146,505
Advertising and public relations	8,872	4,833	34,320	48,025	753,405	251,645	9,417	1,062,492
Travel	449,008	67,910	112,138	629,056	6,992	58,945	237,705	932,698
Building and storage rentals	619,790	6,764	9,196	635,750	35,240	47,800	19,176	737,966
Conferences and meetings	11,657	5,816	28,899	46,372	20,699	412,507	36,343	515,921
Office supplies and expenses	81,926	4,516	28,300	114,742	166,589	106,742	87,733	475,806
Depreciation	168,894			168,894	62,219	24,225	33,735	289,073
Bank credit card fees			49	49	114,022	61,743	11,239	187,053
Insurance	91,622			91,622	16,075	21,937	18,203	147,837
Equipment	97,272	4,783	2,778	104,833	9,583	14,844	10,423	139,683
Information technology	11,535			11,535	36,829	37,438	15,300	101,102
Royalties	89,659	392	2,040	92,091				92,091
Interest							34,977	34,977
Other	18,318			18,318	2,550	75,766		96,634
Total expenses	<u>\$ 12,921,397</u>	<u>\$ 953,254</u>	<u>\$ 1,228,070</u>	<u>\$ 15,102,721</u>	<u>\$ 2,983,568</u>	<u>\$ 2,833,954</u>	<u>\$ 1,963,681</u>	22,883,924
Cost of direct donor benefits								700,339
Investment fees								<u>229,459</u>
Total expenditures								<u>\$ 23,813,722</u>

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

Consolidated Statement of Functional Expenses for the year ended July 31, 2011

	<u>MAINSTAGE</u>	<u>STUDIO</u>	<u>EDUCATION</u>	<u>TOTAL PROGRAM SERVICES</u>	<u>MARKETING AND ADVERTISING</u>	<u>FUNDRAISING</u>	<u>MANAGEMENT AND GENERAL</u>	<u>TOTAL EXPENSES</u>
Salaries and wages	\$ 6,546,724	\$ 330,410	\$ 455,665	\$ 7,332,799	\$ 1,147,434	\$ 1,426,484	\$ 1,123,177	\$ 11,029,894
Payroll taxes and benefits	1,692,960	165,400	177,533	2,035,893	239,584	251,311	245,137	2,771,925
Professional contractor fees	2,073,547	99,208	263,859	2,436,614	295,494	76,734	323,947	3,132,789
Production materials	1,486,793		29,869	1,516,662				1,516,662
Advertising and public relations		4,728	10,552	15,280	808,356	187,608	5,518	1,016,762
Travel	122,313	66,428	32,564	221,305	16,425	170,681	104,340	512,751
Building and storage rentals	597,592	3,702	11,856	613,150	30,489	49,908	18,269	711,816
Conferences and meetings	5,691		9,824	15,515	1,783	217,907	21,356	256,561
Office supplies and expenses	95,960	14,030	24,330	134,320	217,041	121,447	69,332	542,140
Depreciation	155,595			155,595	25,534	24,201	32,650	237,980
Bank credit card fees			14	14	113,438	57,584	11,002	182,038
Insurance	82,038			82,038	11,436	18,954	15,264	127,692
Equipment	63,034	4,005	1,563	68,602	44,256	8,371	9,727	130,956
Information technology	3,457			3,457	35,215	25,026	12,033	75,731
Royalties	168,731	156	7,709	176,596				176,596
Interest							68,492	68,492
Other	12,366			12,366	5,003	66,106		83,475
Total expenses	<u>\$ 13,106,801</u>	<u>\$ 688,067</u>	<u>\$ 1,025,338</u>	<u>\$ 14,820,206</u>	<u>\$ 2,991,488</u>	<u>\$ 2,702,322</u>	<u>\$ 2,060,244</u>	22,574,260
Cost of direct donor benefits								673,068
Investment fees								<u>204,650</u>
Total expenditures								<u>\$ 23,451,978</u>

See accompanying notes to consolidated financial statements.

Houston Grand Opera Association, Inc.

Notes to Consolidated Financial Statements for the years ended July 31, 2012 and 2011

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Houston Grand Opera Association, Inc. (the Association) was founded in 1955 to promote and provide suitable opportunities for the advancement of musical culture by producing, sponsoring, or otherwise making available to the general public music, theater performances including grand opera, light opera, operetta, musical theater, and recitals.

The Association's programs include theater performances, education and outreach, and Houston Grand Opera Studio. Education and outreach initiates and develops educational programs and relationships for children, teachers, and the general public including pre-curtain lectures, artist presentations, high school nights at mainstage performances, and student matinees, and provides for the development of opera education materials and programs for the visually impaired. Houston Grand Opera Studio is a nationally acclaimed training and performance program dedicated to the advancement of young artists with the potential for major careers in the opera, music, and theater profession.

The Houston Grand Opera Guild (the Guild) promotes quality musical drama performances, including grand operas, and provides suitable opportunities for the advancement of musical culture, and instills through education and performances the traditions of opera and music theater in the general public. The Association is the sole member of the Guild. The Houston Grand Opera Endowment (the Endowment) was founded to accumulate and manage a permanent endowment for the purpose of supporting the operations of the Association. The Board of Trustees of the Endowment is appointed by the Board of Directors of the Association.

Basis of consolidation – These consolidated financial statements include the assets, liabilities, net assets and activities of the Association, the Guild, and the Endowment (collectively the Opera). All balances and transactions between these consolidated entities have been eliminated.

Federal income tax status – The Association, the Guild, and the Endowment are exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code. The Association and the Guild are classified as public charities under §509(a)(2). The Endowment is classified as a public charity and a Type I supporting organization under §509(a)(3).

Accounting principles generally accepted in the United States of America requires management to evaluate tax positions taken by the Opera and recognize a tax liability (or asset) if the Opera has taken a position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Opera, and has concluded that as of July 31, 2012, there are no positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Opera files annual federal information returns and is subject to routine examinations of its returns; however, there are no examinations for any tax periods currently in progress. Management believes it is no longer subject to income tax examinations for fiscal years prior to 2009.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are discounted to estimate the present

value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts are included in contribution revenue.

Allowance for doubtful accounts – An allowance for accounts receivable or pledges receivable is provided when it is believed balances may not be collected in full. The allowance is determined using a combination of historical loss experience and individual account by account analysis of accounts receivable and pledges receivable balances. It is possible that management's estimate regarding collectability will change in the near term resulting in a change in the carrying value of accounts receivable and pledges receivable.

Deferred production costs – Expenses for scenery, costumes, music, and stage properties are reported as deferred production costs if specifically related to productions of future opera seasons. These costs are expensed in the year the production is performed.

Beneficial interest in charitable trust is reported at fair value. Changes in the beneficial interest are recognized as contributions from charitable trust in the statement of activities.

Investments are reported at fair value. Investment return is reported in the statement of activities as a change in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions.

Property is reported at cost, if purchased, or at fair value at the date of gift, if donated. Property is depreciated using the straight-line method over estimated useful lives of 2 to 15 years. Expenditures greater than \$1,000 with useful lives greater than 22 months are capitalized.

Net asset classification – Contributions, investment return and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions and investment return restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished, a time restriction ends, or Endowment earnings are appropriated for use, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* include contributions that donors have restricted in perpetuity. Investment return may be used to support donor-specified programs.

Contributions are recognized as revenue when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are recorded as restricted support. If a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Non-cash contributions – Donated materials, use of facilities, and services are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In-kind contributions of \$332,172 and \$505,388 in 2012 and 2011, respectively, consisting primarily of travel and professional services, were recognized by the Association.

Ticket sales and performance fees are recognized as revenue when the performance takes place. Amounts received for future Association season performances are included in the statement of financial position as deferred subscription revenue.

Co-production revenue – The Association enters into co-production agreements with other opera companies or associations for the purpose of sharing performance production costs. Agreements among multiple parties are structured as royalty or rental compensation to the Association. Co-production revenue is recognized when the Association’s contractual obligations are fulfilled.

Advertising is expensed the first time the advertising takes place, except for expenditures related to future opera seasons, which are reported as deferred production costs and other assets. Advertising expense recognized was \$353,315 in 2012 and \$431,320 in 2011.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2012</u>	<u>2011</u>
Pledges receivable	\$ 11,976,266	\$ 16,689,133
Discount to present value using 0.3% to 5.0%	(35,265)	(86,468)
Allowance for uncollectible pledges receivable	<u>(221,777)</u>	<u>(86,953)</u>
Pledges receivable, net	11,719,224	16,515,712
Pledges receivable restricted for endowment, net	<u>(3,289,896)</u>	<u>(4,348,863)</u>
Operating pledges, net	<u>\$ 8,429,328</u>	<u>\$ 12,166,849</u>

Pledges receivable at July 31, 2012 are expected to be collected as follows:

Due in less than one year	\$ 7,953,982
Due in one to five years	<u>4,022,284</u>
Total pledges receivable	<u>\$ 11,976,266</u>

NOTE 3 – BENEFICIAL INTEREST IN CHARITABLE TRUST

The Association was named a beneficiary of a charitable trust, which was created in 2010 upon the death of the trust settler for a period of 20 years from the date of death. The trust will distribute 8% of the final fair value of the trust, as determined by federal estate tax purposes, to the beneficiaries. The Association will receive 30% of that amount each year, or approximately \$186,000 per year through 2029. During

2012, the final estate filing is under audit by the Internal Revenue Service. Scheduled payments from the trust have been suspended until completion of the audit, at which time payments plus interest will resume.

NOTE 4 – INVESTMENTS

Investments consist of the following:

	<u>2012</u>	<u>2011</u>
Common stocks	\$ 10,025,223	\$ 10,608,882
Mutual funds	9,323,233	11,722,516
Fixed-income common collective fund	8,088,913	8,296,609
Limited partnership funds	6,059,408	5,824,034
Master limited partnerships	<u>3,000,355</u>	<u>2,550,558</u>
Total investments at fair value	36,497,132	39,002,599
Cash held as investment	<u>2,139,393</u>	<u>60,285</u>
Total investments	<u>\$ 38,636,525</u>	<u>\$ 39,062,884</u>

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return includes earnings on cash and consists of the following:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 999,033	\$ 910,478
Royalty income	55,349	54,003
Net realized and unrealized gain (loss) on investments	(351,904)	4,351,002
Investment fees	<u>(229,459)</u>	<u>(204,650)</u>
Investment return, net	<u>\$ 473,019</u>	<u>\$ 5,110,833</u>

NOTE 5 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at July 31, 2012 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Common stocks:				
Information technology	\$ 3,300,602			\$ 3,300,602
Foreign	1,647,993			1,647,993
Financials	1,333,613			1,333,613
Health care	1,150,595			1,150,595
Industrials	997,398			997,398
Consumer discretionary	807,135			807,135
Energy	428,569			428,569
Materials	181,098			181,098
Utilities	93,665			93,665
Consumer staples	84,555			84,555
Mutual funds:				
Foreign stock	4,245,796			4,245,796
Money market	1,734,132			1,734,132
Taxable bond	1,096,626			1,096,626
Large-cap stock	1,093,971			1,093,971
Energy and natural resource stock	646,358			646,358
Commodity and other	506,350			506,350
Fixed-income common collective fund (a)		\$ 8,088,913		8,088,913
Limited partnership funds:				
Large-cap private equity index (b)		3,792,270		3,792,270
Real estate (c)			\$ 1,303,618	1,303,618
Event-driven and distressed debt hedge (d)			595,148	595,148
Special situations hedge (e)			368,372	368,372
Master limited partnerships:				
Energy	2,951,204			2,951,204
Utilities	49,151			49,151
Total investments measured at fair value	22,348,811	11,881,183	2,267,138	36,497,132
Beneficial interest in charitable trust			2,832,399	2,832,399
Total assets measured at fair value	<u>\$ 22,348,811</u>	<u>\$ 11,881,183</u>	<u>\$ 5,099,537</u>	<u>\$ 39,329,531</u>

Assets measured at fair value at July 31, 2011 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Common stocks:				
Information technology	\$ 3,308,904			\$ 3,308,904
Foreign	1,610,563			1,610,563
Financials	1,148,762			1,148,762
Health care	1,201,167			1,201,167
Industrials	1,075,731			1,075,731
Consumer discretionary	1,274,375			1,274,375
Energy	458,740			458,740
Materials	223,883			223,883
Utilities	159,448			159,448
Consumer staples	147,309			147,309
Mutual funds:				
Foreign stock	5,233,982			5,233,982
Money market	2,758,206			2,758,206
Taxable bond	1,034,682			1,034,682
Large-cap stock	1,074,303			1,074,303
Energy and natural resource stock	984,001			984,001
Commodity and other	637,342			637,342
Fixed-income common collective fund (a)		\$ 8,296,609		8,296,609
Limited partnership funds:				
Large-cap private equity index (b)		3,515,239		3,515,239
Real estate (c)			\$ 1,203,948	1,203,948
Event-driven and distressed debt hedge (d)			715,357	715,357
Special situations hedge (e)			389,490	389,490
Master limited partnerships:				
Energy	2,500,789			2,500,789
Utilities	49,769			49,769
Total investments measured at fair value	24,881,956	11,811,848	2,308,795	39,002,599
Beneficial interest in charitable trust			2,676,931	2,676,931
Total assets measured at fair value	<u>\$ 24,881,956</u>	<u>\$ 11,811,848</u>	<u>\$ 4,985,726</u>	<u>\$ 41,679,530</u>

- (a) The primary investment objective of the fund is to hold a portfolio representative of the overall United States bond and debt market, as characterized by the Barclays Intermediate Aggregate Bond Index. This fund may participate in securities lending. Redemptions may be made monthly and require 30 days written notice.
- (b) The primary focus of the fund is to own United States-based securities. However, the fund may at times own securities based in other nations due to corporate actions and entity domicile. The partnership's primary investment objective is to manage an index fund based on enhancements to the Research Affiliates, LLC Fundamental Index concept. Redemptions may be made monthly and require 30 days written notice.
- (c) This fund invests in real estate and real estate joint ventures. Redemptions require 90 days written notice. There is no lockup period; however, withdrawals are limited to available cash held by the fund and may be suspended until such time adequate liquidity exists to pay the redemption.
- (d) Represents two limited partnership hedge funds whose investment strategies seek to achieve superior absolute returns by investing in event driven equities and defaulted debt among special situations primarily in the small and micro-cap markets. Redemptions may generally be made on June 30th of each year upon 90 days written notice.

- (e) The primary investment objective is to earn an attractive return on contributed capital while minimizing risk over the long-term by investing in securities and other financial instruments that the general partner believes to be undervalued or issued by special situation companies. Redemptions may generally be made at the end of each fiscal quarter after being invested in the fund for one year, upon 90 days written notice. If the fund receives total redemption requests exceeding 20% of the fund net assets at any one time, redemptions may be made on a pro-rata basis so not to exceed 20% withdrawal of the fund and will carryover remaining withdrawal requests to the end of the next quarter. Any and all withdrawal payments are subject to the General Partner's ability to liquidate portions of the portfolio in a commercially reasonable manner that does not prejudice the other Limited Partners.

There are no unfunded commitments at July 31, 2012.

Valuation methods used for assets measured at fair value are as follows:

- *Common stocks and master limited partnerships* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at the published net asset value of shares held at year end.
- *Fixed-income common collective fund and large-cap private equity index fund* are valued at net asset values as determined by the issuer or investment manager based on the fair value of the underlying investments.
- *Limited partnership real estate fund* is valued based on the equity method of accounting based on information provided by the general partner.
- *Limited partnership hedge funds* are valued at net asset value as a practical expedient, as determined by the investment manager based on the underlying investments.
- *Beneficial interest in charitable trust* is estimated as the present value of the expected future cash flow payments.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Changes in the fair value of Level 3 assets at July 31, 2012 and 2011 are as follows:

	BENEFICIAL INTEREST IN CHARITABLE TRUST	HEDGE FUNDS	REAL ESTATE FUND	TOTAL
Balance at July 31, 2010	\$ 2,649,990	\$ 823,469	\$ 1,000,000	\$ 4,473,459
Net purchases, sales and redemptions		185,868	9,774	195,642
Contributions	72,546			72,546
Charitable trust distribution	(45,605)			(45,605)
Unrealized gain (loss)		(40,486)	196,598	156,112
Realized gain (loss)		135,996	(2,424)	133,572
Balance at July 31, 2011	2,676,931	1,104,847	1,203,948	4,985,726
Purchases		66,200	66,573	132,773
Redemptions		(193,314)	(56,312)	(249,626)
Contributions	155,468			155,468
Unrealized gain (loss)		(14,213)	87,092	72,879
Realized gain			2,317	2,317
Balance at July 31, 2012	<u>\$ 2,832,399</u>	<u>\$ 963,520</u>	<u>\$ 1,303,618</u>	<u>\$ 5,099,537</u>

The amount reported in changes in net assets attributable to unrealized gains related to assets held at year end and measured at fair value using significant unobservable inputs is \$72,879 and \$156,112 in 2012 and 2011, respectively. This amount was included in investment return in the accompanying statement of activities.

NOTE 6 – PROPERTY

Property consists of the following:

	<u>2012</u>	<u>2011</u>
Leasehold improvements	\$ 1,956,880	\$ 1,918,141
Production and music equipment	1,073,220	894,763
Office furnishings and equipment	931,490	804,432
Vehicles	<u>144,504</u>	<u>163,553</u>
Total property, at cost	4,106,094	3,780,889
Accumulated depreciation	<u>(2,826,577)</u>	<u>(2,629,882)</u>
Property, net	<u>\$ 1,279,517</u>	<u>\$ 1,151,007</u>

NOTE 7 – NOTE PAYABLE

The Association has a \$6 million unsecured bank line of credit due February 1, 2013, with interest payable monthly at the bank’s prime interest rate plus 1.75% (5.00% at July 31, 2012). Interest expense was \$34,977 in 2012 and \$68,492 in 2011. At July 31, 2012 no amounts are outstanding on the bank line of credit.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Leases – The Association leases office, storage and rehearsal space, and equipment under noncancellable operating leases. Minimum future lease payments are as follows:

2013	\$ 314,769
2014	<u>293,323</u>
Total minimum future lease payments	<u>\$ 608,092</u>

In 1987, the Association entered into a lease on a non-exclusive basis with the City of Houston for the use of the Wortham Center for \$134,000 a year. The initial term of the lease is 30 years and can be renewed for an additional 30-year term. The lease can be cancelled with six months notice by the Association.

Rental expense recognized was \$693,308 in 2012 and \$679,442 in 2011.

Artists’ contracts – The Association has compensation contracts with various artists for future performances. If the Association cancels these performances, it may be liable to pay the related artists all

or a portion of the agreed compensation. As of July 31, 2012, such contracts with artists call for potential future compensation as follows:

2013	\$ 3,482,000
2014	2,755,000
2015	1,856,000
2016	1,328,000
2017	840,000
Thereafter	<u>69,000</u>
Total	<u>\$ 10,330,000</u>

NOTE 9 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2012</u>	<u>2011</u>
Property, net	\$ 1,279,497	\$ 1,150,987
Board-designated endowment funds	727,205	644,329
Undesignated	<u>(2,592,182)</u>	<u>(2,593,300)</u>
Total unrestricted net assets	<u>\$ (585,480)</u>	<u>\$ (797,984)</u>

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Restricted for future opera productions	\$ 8,832,461	\$ 12,101,315
Accumulated earnings on permanent endowment (<i>Note 11</i>)	6,168,369	7,779,738
Board-designated endowment	<u>2,695,583</u>	<u>2,540,115</u>
Total temporarily restricted net assets	<u>\$ 17,696,413</u>	<u>\$ 22,421,168</u>

NOTE 11 – ENDOWMENT

The Board of Trustees of the Endowment has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Endowment classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Endowment in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Endowment considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Opera and the donor-restricted endowment fund
- General economic conditions

- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Opera
- The investment policies of the Endowment

Endowment assets include donor-restricted funds that the Endowment must hold in perpetuity as well as board-designated endowment funds of the Endowment. The Board of Trustees of the Endowment is charged with preserving the corpus of the endowment, growing the total value of the endowment through investments and gifts, and financially supporting the mission and activities of the Opera.

Spending Policy

Annually, the Endowment will distribute 5% of the average market value of the Endowment's funds under management for the preceding twelve quarters (beginning July 31 of the prior year and preceding quarters). Additionally, .4% is appropriated for the administrative costs of the planned giving department. Excluded from funds under management will be any restricted funds that do not qualify as distributable for the upcoming year. In conjunction with the authorization of the annual distribution, the Board of Trustees of the Endowment will review this policy in light of current and expected market conditions and rate of inflation. Other distributions may be made from time to time at the discretion of the Board of Trustees of the Endowment.

Investment Policy

Endowment funds are maintained in investment accounts which are managed by the Endowment Board of Trustees with oversight provided by an independent financial consultant. Investment decisions follow guidance provided in an investment policy approved by the Board of Trustees of the Endowment. The investment policies attempt to provide a predictable stream of funding to programs supported while seeking to maintain the purchasing power of the endowment assets. The Endowment expects its endowment funds, over time, to provide an average rate-of-return of approximately five percentage points more than the rate of inflation. To satisfy its long-term rate-of-return objectives, the Endowment relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Endowment targets a diversified asset allocation that places an emphasis on a blend of equity-based investments and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

Loan to Association

The Endowment has established a revolving line of credit with the Association bearing interest at 5%, and is considered a short-term fixed-income investment within the Endowment portfolio allocation. The amount outstanding on the line of credit from the Endowment to the Association was \$1.3 million at July 31, 2012. This amount has been eliminated in consolidation. On August 1, 2012, the \$1.3 million was repaid by the Association to the Endowment.

Changes in net assets of the endowment funds are as follows:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, August 1, 2010	\$ 252,007	\$ 4,873,189	\$ 32,045,912	\$ 37,171,108
Contributions	<u>61,908</u>	<u>122,547</u>	<u>4,117,546</u>	<u>4,302,001</u>
Investment return:				
Interest and dividends	11,990	949,949		961,939
Net realized and unrealized gain	147,994	4,177,250		4,325,244
Investment management fees	<u> </u>	<u>(204,650)</u>		<u>(204,650)</u>
Net investment return	<u>159,984</u>	<u>4,922,549</u>		<u>5,082,533</u>
Expenses	<u>(11,990)</u>			<u>(11,990)</u>
Expiration of time restriction	<u>182,420</u>	<u>(182,420)</u>		
Transfer from Association		<u>2,649,989</u>		<u>2,649,989</u>
Appropriations for expenditure		<u>(2,066,000)</u>		<u>(2,066,000)</u>
Endowment net assets, July 31, 2011	<u>644,329</u>	<u>10,319,854</u>	<u>36,163,458</u>	<u>47,127,641</u>
Contributions	<u>11,423</u>	<u>155,467</u>	<u>287,737</u>	<u>454,627</u>
Investment return:				
Interest and dividends	36,888	1,013,256		1,050,144
Net realized and unrealized gain (loss)	56,834	(391,402)		(334,568)
Investment management fees	<u>(7,558)</u>	<u>(221,901)</u>		<u>(229,459)</u>
Net investment return	<u>86,164</u>	<u>399,953</u>		<u>486,117</u>
Expenses	<u>(14,711)</u>			<u>(14,711)</u>
Use of purpose restriction		<u>(50,000)</u>		(50,000)
Transfer to/from Association			<u>25,000</u>	<u>25,000</u>
Appropriations for expenditure		<u>(1,961,322)</u>		<u>(1,961,322)</u>
Endowment net assets, July 31, 2012	<u>\$ 727,205</u>	<u>\$ 8,863,952</u>	<u>\$ 36,476,195</u>	<u>\$ 46,067,352</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TUPMIFA requires the Endowment to retain as a fund of perpetual duration. Deficiencies of this nature result from unfavorable market fluctuations and are reported in unrestricted net assets as an aggregate deficiency of the fair value of net endowment assets over permanently restricted net assets.

Endowment net asset composition as of July 31, 2012:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds:				
General operating		\$ 2,140,599	\$ 12,964,510	\$ 15,105,109
Main stage productions		1,278,684	8,805,596	10,084,280
General director chair		31,963	3,986,896	4,018,859
Studio		227,929	2,106,352	2,334,281
New productions		737,883	1,507,674	2,245,557
Electronic media		187,402	2,000,000	2,187,402
Concert of Arias		455,284	1,352,218	1,807,502
Music director chair		404,906	1,000,000	1,404,906
Fund for Great Artists		262,726	1,000,000	1,262,726
Education		259,224	923,176	1,182,400
Visiting artist chair		89,047	300,000	389,047
Spring Opera Festival		15,809	250,000	265,809
Studio guest coach chair		49,484	148,923	198,407
Vocal coach chair		11,494	125,000	136,494
Wagner opera performances		<u>15,935</u>	<u>5,850</u>	<u>21,785</u>
Total donor-restricted endowment funds		6,168,369	36,476,195	42,644,564
Board-designated endowment funds	<u>\$ 727,205</u>	<u>2,695,583</u>	<u> </u>	<u>3,422,788</u>
Endowment net assets	<u>\$ 727,205</u>	<u>\$ 8,863,952</u>	<u>\$ 36,476,195</u>	<u>\$ 46,067,352</u>

Endowment net asset composition as of July 31, 2011:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds:				
General operating		\$ 3,496,740	\$ 12,995,905	\$ 16,492,645
Main stage productions		1,457,075	8,585,596	10,042,671
General director chair			3,971,364	3,971,364
Studio		272,904	2,102,852	2,375,756
New productions		732,022	1,507,674	2,239,696
Electronic media		224,197	2,000,000	2,224,197
Concert of Arias		491,323	1,352,218	1,843,541
Music director chair		435,416	1,000,000	1,435,416
Fund for Great Artists		216,154	1,000,000	1,216,154
Education		278,538	898,076	1,176,614
Visiting artist chair		74,698	300,000	374,698
Spring Opera Festival		21,114	250,000	271,114
Studio guest coach chair		49,967	68,923	118,890
Vocal coach chair		14,458	125,000	139,458
Wagner opera performances		<u>15,132</u>	<u>5,850</u>	<u>20,982</u>
Total donor-restricted endowment funds		7,779,738	36,163,458	43,943,196
Board-designated endowment funds	<u>\$ 644,329</u>	<u>2,540,116</u>	<u> </u>	<u>3,184,445</u>
Endowment net assets	<u>\$ 644,329</u>	<u>\$ 10,319,854</u>	<u>\$ 36,163,458</u>	<u>\$ 47,127,641</u>

During 2012, the Association reviewed the classification of its permanently restricted asset funds and determined certain reclassifications within permanently restricted funds were necessary to more accurately reflect the donor's restrictions. These reclassifications are reflected as of July 31, 2010 and had no impact on total permanently restricted net assets but resulted in a \$594,000 decrease in general operating donor-restricted endowment funds and an offsetting increase in various specific purpose donor-restricted endowment funds.

NOTE 12 – RETIREMENT PLAN

The Association has a defined contribution retirement plan covering substantially all employees who have completed one year of service. The Association matches 100% of the eligible participating employee's contribution up to 2% of the employee's annual salary. In addition, the Association makes contributions to union-sponsored Actors' plans. The Association contributed approximately \$338,000 to these plans in 2012 and \$305,000 in 2011.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 24, 2012, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

Houston Grand Opera Association, Inc.

Consolidating Statement of Financial Position as of July 31, 2012

	ASSOCIATION		ENDOWMENT	GUILD	ELIMINATIONS	TOTAL
	OPERATING FUND	PLANT FUND				
ASSETS						
Cash	\$ 105,653			\$ 1,500		\$ 107,153
Accounts receivable, net	613,205		\$ (5,864)			607,341
Pledges receivable and beneficial interest in charitable trust, net	8,429,328		6,122,295			14,551,623
Deferred production costs and other assets	2,057,111			73,049		2,130,160
Investments			39,936,525		\$ (1,300,000)	38,636,525
Property, net		\$ 1,279,497	20			1,279,517
Due from affiliates			14,376	46,217	(60,593)	
TOTAL ASSETS	\$ 11,205,297	\$ 1,279,497	\$ 46,067,352	\$ 120,766	\$ (1,360,593)	\$ 57,312,319
LIABILITIES AND NET ASSETS						
Liabilities:						
Accounts payable and accrued expenses	\$ 343,331			\$ 3,301		\$ 346,632
Accrued salaries and benefit costs	289,386					289,386
Deferred subscription revenue	2,647,376					2,647,376
Note payable	1,300,000				\$ (1,300,000)	
Deferred co-production and set rental revenue	441,797					441,797
Due to affiliates	60,593				(60,593)	
Total liabilities	5,082,483			3,301	(1,360,593)	3,725,191
Net assets:						
Unrestricted	(2,709,647)	\$ 1,279,497	\$ 727,205	117,465		(585,480)
Temporarily restricted	8,832,461		8,863,952			17,696,413
Permanently restricted			36,476,195			36,476,195
Total net assets	6,122,814	1,279,497	46,067,352	117,465		53,587,128
TOTAL LIABILITIES AND NET ASSETS	\$ 11,205,297	\$ 1,279,497	\$ 46,067,352	\$ 120,766	\$ (1,360,593)	\$ 57,312,319

Houston Grand Opera Association, Inc.

Consolidating Statement of Financial Position as of July 31, 2011

	ASSOCIATION		ENDOWMENT	GUILD	ELIMINATIONS	TOTAL
	OPERATING FUND	PLANT FUND				
ASSETS						
Cash	\$ 253,516			\$ 1,500		\$ 255,016
Accounts receivable, net	216,033		\$ (10,951)			205,082
Pledges receivable and beneficial interest in charitable trust, net	12,166,849		7,025,794			19,192,643
Deferred production costs and other assets	1,782,167			83,800		1,865,967
Investments			39,062,884			39,062,884
Property, net		\$ 1,150,987	20			1,151,007
Due from affiliates			1,049,894	56,230	\$ (1,106,124)	
TOTAL ASSETS	\$ 14,418,565	\$ 1,150,987	\$ 47,127,641	\$ 141,530	\$ (1,106,124)	\$ 61,732,599
LIABILITIES AND NET ASSETS						
Liabilities:						
Accounts payable and accrued expenses	\$ 566,605			\$ 571		\$ 567,176
Accrued salaries and benefit costs	210,297					210,297
Deferred subscription revenue	2,474,559					2,474,559
Note payable	585,000					585,000
Deferred co-production and set rental revenue	108,925					108,925
Due to affiliates	1,106,124				\$ (1,106,124)	
Total liabilities	5,051,510			571	(1,106,124)	3,945,957
Net assets:						
Unrestricted	(2,734,260)	\$ 1,150,987	\$ 644,330	140,959		(797,984)
Temporarily restricted	12,101,315		10,319,853			22,421,168
Permanently restricted			36,163,458			36,163,458
Total net assets	9,367,055	1,150,987	47,127,641	140,959		57,786,642
TOTAL LIABILITIES AND NET ASSETS	\$ 14,418,565	\$ 1,150,987	\$ 47,127,641	\$ 141,530	\$ (1,106,124)	\$ 61,732,599

Houston Grand Opera Association, Inc.

Consolidating Statement of Activities for the year ended July 31, 2012

	ASSOCIATION		ENDOWMENT	GUILD	TOTAL
	OPERATING FUND	PLANT FUND			
REVENUE:					
Contributions	\$ 9,951,695		\$ 454,627	\$ 20,171	\$ 10,426,493
Ticket sales and performance fees	4,258,303				4,258,303
Special events	2,896,718			62,465	2,959,183
Cost of direct donor benefits	(673,189)			(27,150)	(700,339)
Co-production and other income	1,160,034			107,717	1,267,751
Investment return, net	(13,098)		486,117		473,019
Total revenue	<u>17,580,463</u>		<u>940,744</u>	<u>163,203</u>	<u>18,684,410</u>
EXPENSES:					
Program services	14,924,913	\$ 162,052		15,756	15,102,721
Marketing and advertising	2,915,566	62,219		5,783	2,983,568
Fundraising	2,703,221	24,225		106,508	2,833,954
Management and general	1,908,381	33,734	14,711	6,855	1,963,681
Total expenses	<u>22,452,081</u>	<u>282,230</u>	<u>14,711</u>	<u>134,902</u>	<u>22,883,924</u>
Transfers (to) from affiliates	<u>1,627,377</u>	<u>410,740</u>	<u>(1,986,322)</u>	<u>(51,795)</u>	
CHANGES IN NET ASSETS	(3,244,241)	128,510	(1,060,289)	(23,494)	(4,199,514)
Net assets, beginning of year	<u>9,367,055</u>	<u>1,150,987</u>	<u>47,127,641</u>	<u>140,959</u>	<u>57,786,642</u>
Net assets, end of year	<u>\$ 6,122,814</u>	<u>\$ 1,279,497</u>	<u>\$ 46,067,352</u>	<u>\$ 117,465</u>	<u>\$ 53,587,128</u>

Houston Grand Opera Association, Inc.

Consolidating Statement of Activities for the year ended July 31, 2011

	ASSOCIATION		ENDOWMENT	GUILD	TOTAL
	OPERATING FUND	PLANT FUND			
REVENUE:					
Contributions	\$ 15,160,096		\$ 4,302,000	\$ 20,921	\$ 19,483,017
Ticket sales and performance fees	4,188,199				4,188,199
Special events	2,033,085			54,190	2,087,275
Cost of direct donor benefits	(644,716)			(28,352)	(673,068)
Co-production and other income	949,368			107,589	1,056,957
Investment return, net	28,301		5,082,532		5,110,833
Total revenue	<u>21,714,333</u>		<u>9,384,532</u>	<u>154,348</u>	<u>31,253,213</u>
EXPENSES:					
Program services	14,658,048	\$ 155,595		6,563	14,820,206
Marketing and advertising	2,963,618	25,534		2,336	2,991,488
Fundraising	2,589,154	24,201		88,967	2,702,322
Management and general	2,009,481	32,650	11,990	6,123	2,060,244
Total expenses	<u>22,220,301</u>	<u>237,980</u>	<u>11,990</u>	<u>103,989</u>	<u>22,574,260</u>
Transfers (to) from affiliates	<u>1,697,487</u>	<u>394,031</u>	<u>(2,066,000)</u>	<u>(25,518)</u>	
Transfer of bequest from Association to Endowment	<u>(2,649,991)</u>		<u>2,649,991</u>		
CHANGES IN NET ASSETS	(1,458,472)	156,051	9,956,533	24,841	8,678,953
Net assets, beginning of year	<u>10,825,527</u>	<u>994,936</u>	<u>37,171,108</u>	<u>116,118</u>	<u>49,107,689</u>
Net assets, end of year	<u>\$ 9,367,055</u>	<u>\$ 1,150,987</u>	<u>\$ 47,127,641</u>	<u>\$ 140,959</u>	<u>\$ 57,786,642</u>